

Message Text

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TAGS: ETRD, GATT, FI

SUBJ: GATT BALANCE OF PAYMENTSS CONSULTATIONS WITH FINLAND

REF: A. STATE 11711, B. HELSINKI 1053, C. GENEVA 3973

BEGIN SUMMARY. IMF REP SAID FINNISH RESTRICTIONS NOT UNWAR-
RANTED GIVEN EXTREMELY LOW LEVEL OF RESERVES. COMMITTEE SHARED
THIS CONCLUSION. FINLAND STRESSED NECESSITY TO REDUCE FOREIGN
INDEBTEDNESS AND EXPRESSED CONCERN THAT DESPITE RECENT IMPROVE-
MENT IN CURRENT ACCOUNT, OUTLOOK CLOUDED AND FOR TIME BEING
FURTHER CHANGES IN IMPORT REGIME NOT POSSIBLE. COMMITTEE EX-
PRESSED CONCERN ABOUT CASH PAYMENT SCHEME ALTHOUGH FINLAND
DEFENDED IT AS MONETARY MEASURE. FINLAND ADMITTED QUOTAS AND
LICENSES WERE FOR BOP AND OTHER REASONS. END SUMMARY.

1. GATT BALANCE OF PAYMENTS COMMITTEE MET MAY 24 AND MAY 27
TO HOLD CONSULTATION WITH FINLAND. KEY PORTION OF IMF REPRE-
SENTATIVE'S STATEMENT REPORTED IN REFTEL C.

2. IN ITS OPENING STATEMENT FINLAND STRESSED NECESSITY
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OF REDUCING FOREIGN INDEBTEDNESS TO INCURE STABLE AND
SUSTAINED ECONOMIC EXPANSION. RECENT IMPROVEMENT IN CUR-
RENT ACCOUNT WAS BROUGHT ABOUT A TOO HEAVY COST IN UNDER-
UTILIZATION OF RESOURCES. THEREFORE, OUTLOOK FOR FURTHER CUR-
RENT ACCOUNT IMPROVEMENT IS NOT GOOD, AND FINLAND CANNOT FOR THE
TIME BEING PERMIT CHANGES IN IMPORT REGIME. BETTER PER-
FORMANCE THAN AT PRESENT IS NECESSARY TO REACH GOAL OF

REDUCING CURRENT ACCOUNT DEFICIT OF 2.5 PERCENT OF GDP
BY 1980.

3. ON BALANCE OF PAYMENTS PROSPECTS FINLAND SAID EXPORTS
EXPECTED TO GROW 11.5 PERCENT IN 1977 AND 5.6 PERCENT
IN 1978 WHILE IMPORTS, TO GROW ONLY BY 1 PERCENT IN 1977
AND ONLY SLIGHTLY MORE IN 1978. CURRENT ACCOUNT DEFICIT
EXPECTED TO BE HALVED IN 1977 AND TO BE EVEN LOWER IN 1978.

4. IN RESPONSE TO QUESTIONS ON LEVEL OF FOREIGN BORROW-
ING, FINLAND STRESSED IT WAS ESSENTIAL TO REDUCE ITS
FOREIGN INDEBTEDNESS, PARTICULARLY SHORT-TERM DEBT. THE
INCREASE IN MONEY SUPPLY ARISING FROM PHASING OUT OF THE
IMPORT DEPOSIT SCHEME WAS NEUTRALIZED BY TIGHTENING
CENTRAL BANK QUOTA. LIMITATION ON EXCESSIVE BANK LOANS
TO FINANCE INVENTORIES WAS INTRODUCED IN ORDER TO
STIMULATE PRODUCTIVE INVESTMENTS AND TO DISCOURAGE UNPRO-
DUCTIVE INVESTMENTS THAT DON'T INCREASE EMPLOYMENT.

5. COMMITTEE MEMBERS ASKED A NUMBER OF QUESTIONS ON THE
CASH PAYMENTS SCHEME AND EXPRESSED SOME CONCERN ABOUT ITS
EFFECT ON IMPORTS. FINLAND CONTENDED THAT SCHEME
WAS A MONETARY MEASURE, NOT BOP MEASURE, WHICH DID NOT
AFFECT IMPORTS. IT EXPLAINED SCHEME IN CONTEXT OF ITS
EFFORT TO REDUCE LEVEL OF SHORT-TERM INDEBTEDNESS. THE
EXTENSION OF THE SCHEME TO RAW MATERIALS WAS NECESSARY
IN ORDER TO APPLY THE SAME MONETARY TRINGENCY TO IM-
PORTERS THAT HAD ALREADY BEEN APPLIED TO DOMESTIC PRO-
DUCERS WHO, AS A CONSEQUENCE, WERE HAVING INVREASING
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DIFFICULTY DELIVERING PRODUCTS ON CREDIT.

6. INRESPONSE TO QUESTIONS ON FINLAND'S REMAINING RE-
STRICTIONS (I.E., QUOTAS AND LICENSING), FINLAND STRESSED
THAT MOST IMPORTANT CATEGORY OF GOODS COVERED WAS OIL
AND FUELS. IT NOTED 5 TO 10 PERCENT OF ANNUAL LICENSING
ALLOCATIONS ARE RSERVED FOR NEW ENTRANTS. FINLAND
ACKNOWLEDGED THAT QUOTAS AND LICENSING WERE IMPOSED
FOR BOP AND OTHER POLICY REASONS. IT ADDED THAT THE
AGRICULTURAL PRODUCTS COVERED WERE THOSE THAT WERE NOT
ESSENTIAL AND COULD BE PRODUCED DOMESTICALLY AND THAT
ARTICLE XII SEEMED TO BE THE MOST APPROPRIATE GATT COVER
FOR THESE RESTRICTIONS. FURTHER REDUCTIONS IN RESTRIC-
TIONS WOULD DEPEND ON IMPROVEMENT IN BALANCE OF PAYMENTS.
GIVEN THE CURRENT ECONOMIC SITUATION, FINLAND SAID IT
WAS STILL NECESSARY TO MAINTAIN THE SYSTEM OF SURVEIL-
LANCE LICENSES.

7. ON QUESTION OF SHIFTING TURNOEVER TAX COLLECTION TO

POINT OF CUSTOMS CLEARANCE (ISSUE RAISED IN REFTTEL C),
FINNISH REP SAID THAT ACTION WAS PART OF MAJOR FISCAL
REFORM AND CORRESPONDING CHANGE WOULD BE MADE IN SYSTEM
OF COLLECTION IN DOMESTIC SECTOR AS SOON AS TECHNICALLY
FEASIBLE AND NOT LATER THAN END OF 1978. HE ASSURED
COMMITTEE THERE WAS NO INTENT TO OMPLEMENT CHANGES IN
A DISCRIMINATORY MANNER.

8. IT ITS CONCLUSIONS COMMITTEE SAID THAT TAKING INTO
ACCOUNT IMF VIEW THAT NO IMPROVEMENT COULD BE EXPECTED
IN 1977 IN THE LOW LEVEL OF FINLAND'S EXTERNAL RESERVES,
THE COMMITTEE RECOGNIZED THAT THERE WAS NEED FOR A DE-
GREE OF TRADE RESTRICTION. COMMITTEE ALSO NOTED THAT
SOME FINNISH RESTRICTIONS--GLOBAL QUOTAS AND LICENSING--
WERE IMPOSED FOR BLANCE OF PAYMENTS AND OTHER REASONS
AND WELCOMED THE FINNISH AUTHORITIES' INTENTION TO CON-
SIDER FURTHER LIMITATION OF THE LEVEL OF TRADE RESTRIC-
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TIONS IN CASE THE BALANCE OF PAYMENTS SITUATION WOULD
PERMIT SUCH RELAXATION. IT ALSO EXPRESSED SOME CONCERN
AS TO THE POSSIBLE TRADE EFFECTS OF THE CASH PAYMENTS
SCHEME, AS ENLARGED IN APRIL 1977; ALTHOUGH IT NOTED
THAT THE SCHEME WAS INTRODUCED PRIMARILY AS A MONETARY
MEASURE, IT FELT THAT ANY DETRIMENTAL EFFECTS ON TRADE
SHOULD BE AVOIDED. SORENSON

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